

ARGENTINA

INFLATION REPORT

ECONOMIC SECTION

U.S. EMBASSY

BUENOS AIRES

March 2004

SUMMARY

The official Consumer Price Index (CPI) was 0.6 percent higher in March 2004, which is in line with the BCRA's survey on market expectations. This brings 12-month inflation to 2.6 percent, suggesting continued price stability. Average nominal salaries increased 2.08 percent in February over January 2004 and the purchasing power of salaried workers in February 2004 was an average 10.08 percent higher than what it was in February 2003. The GOA calculated in December 2003 that 47.8 percent of the population lived below the poverty line. The GOA's inflation projection in the 2004 budget bill is 10.5 percent, and BCRA's monetary program inflation target lies between 7 and 11 percent for 2004. CPI inflation predictions for 2004 by 12 well-known think-tanks average 6.9 percent, down from 7.1 percent a month ago. New poverty figures are expected to be released on September 2004.

THE CONSUMER PRICE INDEX

The official Consumer Price Index (CPI) was 0.6 percent higher in March than in February 2004, which is in line with BCRA's survey on market expectations. This brings 12-month inflation to 2.6 percent, suggesting continued price stability. Prices of Goods and Services increased 0.9 and 0.2 percent, respectively, in March. The official CPI only measures inflation in the Greater Buenos Aires urban area.

Clothing was the CPI component with the highest monthly price rise, 6.8 percent, followed by Health Services with 2.1 percent. Miscellaneous Goods and Services, and Housing and Basic Services increased 1.7 and 0.4 percent, respectively, in March 2004. Miscellaneous Goods and Services, Clothing, and Housing and Basic Services were the three CPI components with the greatest increases since March 2003, with 7.3, 6.3 and 3.3 percent, respectively.

TABLE ONE
CONSUMER PRICE INDEX (1999=100)

END OF	PCT CHG
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YEAR	PERIOD	PREV YR
1998	101.7	0.7
1999	99.9	-1.8
2000	99.1	-0.7
2001	97.6	-1.5
2002	137.6	41.0
2003	142.6	3.7
	AVERAGE	PCT CHG PREV MO
2003		
JAN	139.4	1.3
FEB	140.2	0.6
MAR	141.0	0.6
APR	141.1	0.1
MAY	140.5	-0.4
JUN	140.4	-0.1
JUL	141.0	0.4
AUG	141.0	0.0
SEP	141.1	0.0
OCT	142.0	0.6
NOV	142.3	0.2
DEC	142.6	0.2
2004		
JAN	143.2	0.4
FEB	143.3	0.1
MAR	144.2	0.6

Source: National Bureau of Statistics and Census (INDEC).

POVERTY AND DESTITUTION LEVELS

INDEC also publishes a monthly estimate of the value of a "total consumption basket" and a "food consumption basket." They are based on the minimum nutritional requirements and other consumption habits of people of different ages. These estimates determine the official poverty line and the official destitution line, respectively. The poverty line was valued at ARP 717.44 (USD 251.73) and the destitution line was valued at ARP 327.60 (USD 114.94) for a family of four in March 2004. A family of four is defined as a man and a woman in their thirties, an eight-year-old girl and a five-year-old boy. The peso value of the poverty line decreased 0.56 percent in March over February 2004, and 1.67 percent since March 2003. The percentage of people below the poverty line was 54.7 percent in May 2003, and 47.8 percent in December 2003. The peso value of the destitution line decreased 0.14 percent in March over February 2004, and 1.67 percent from March 2003. The percentage of people below the destitution line was 26.3 percent of the total urban population in May 2003, and 20.5 percent in December 2003.

Econoffs estimate that the increase of people below the poverty line would be 2 percent and 4 percent of the total urban population if total consumption basket prices increased by 5 percent or 10 percent, respectively. They estimate that the percentage of people below the destitution line would increase by 1.6 percent and 3.5 percent of the total urban population if food consumption basket prices increased by 5 percent or 10 percent, respectively. This reflects the fact that there is a high concentration of families whose incomes are close to the poverty and destitution lines. Small price increases may have a significant negative impact on the living standards of these people.

AVERAGE NOMINAL SALARIES

INDEC estimated that average nominal salaries increased 2.08 percent in February over January 2004, whereas inflation was 0.1 percent during that period. The average nominal increase was due to rises of 3.24, 1.65, and 0 percent for salaries of private sector formal employees, informal employees, and public employees, respectively. Salaries of private sector formal employees increased more than other salaries due to Decree 392/2003, which established an ARP 224 (USD 77.24) raise in minimum wages in eight monthly installments of ARP 28 (USD 9.65) beginning in July 2003.

Salaries grew by 12.96 percent between February 2004 and February 2003. This increase is mainly due to increases of 19.33 percent, 12.93 percent and 0.68 percent in formal private sector, informal private sector and public salaries, respectively, for that period. Therefore, the purchasing power of salaried workers in February 2004 was on average 10.08 percent higher than what it was in February 2003.

WHOLESALE PRICE INDEXES

The Wholesale Price Index (IPIM) increased 0.6 percent during March 2004, bringing the total IPIM change since March 2003 to 3.5 percent. This index measures the price changes of national products (including Primary Products and Manufactured Goods and Electric Power) and imports sold in the domestic market. The IPIM also includes taxes. IPIM national product prices increased 0.6 percent in March 2004. This was due to a 0.3 percent decrease in Primary Product prices and a 0.9 percent increase in Manufactured Goods and Electric Power. Import prices increased 0.3 percent.

The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM. However, the IPIB does not include taxes. The IPIB increased 0.6 percent in March 2004, bringing the total IPIB increase since March 2003 to 3.4 percent. IPIB national product prices rose 0.6 percent in March 2004. This was due to a 0.4 percent decrease in Primary Product prices and a 0.9 percent increase in Manufactured Goods and Electric Power. Import prices rose by 0.2 percent during the same period.

The prices for the sectors measured in the IPIM and IPIB are weighted using the corresponding value of product net of exports. INDEC has devised another index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP rose 0.6 percent in March 2004, bringing the total IPP increase since the March 2003 to 4.8 percent. Primary Products and Manufactured Goods and Electric Power increased 0.4 and 1.0 percent, respectively, in March 2004.

CONSTRUCTION PRICES

The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 1.3 percent during March 2004. These costs were 13.9 percent higher than those prevailing in March 2003. This monthly rise is the result of a 2.2 percent increase in the cost of materials, a 0.2 percent jump in the cost of labor and a 0.4 percent growth in other construction costs. The increase in the cost of materials was mainly due to increases of 13.4 percent, 10.5 percent and 6.9 percent in construction iron, plumbing materials, and cables, respectively, for that period. Wages of salaried employees working for the sector rose 0.2 percent due to the ARP 28 (USD 9.65) increase established by Decree 392/2003. Payments to the self-employed did not change. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2004

The GOA's official 2004 inflation projection in the 2004 budget bill is 10.5 percent. The Central Bank's inflation target ranges between 7 and 11 percent for the year. According to BCRA's survey on market expectations, published on April 15, CPI inflation will be 0.6 percent in April, and 6.9 percent in 2004. This study takes into account the inflation forecasts made by 52 local and international analysts.

CPI inflation predictions for 2004 by 12 well-known think-tanks average 6.9 percent, down from 7.1 percent a month ago. Inflation for 2004 may be powered by the adjustment

in public utility tariffs, fuel prices such as gasoline and natural gas (including compressed natural gas for the nation's large GNC-powered fleet of vehicles), and pressure for public sector salary increases. Natural gas tariff increases for industrial users are expected after May 2004. However, the GOA can be expected to resist public utility tariff, fuel and public sector salary pressures.

COMMENT

The GOA calculated that 47.8 percent of the population lived below the poverty line and 20.5 percent of the population lived below the destitution line in December 2003. Small increases in the cost of living can have a profoundly negative impact on large sectors of the population. This is one of the reasons why the Kirchner government has so far resisted increases in public utility tariffs and fuel prices. INDEC will release June 2004's poverty figures in September 2004.